

Washington State Auditor's Office

Audit Report

Audit Services

Report No. 5757

EVERETT COMMUNITY COLLEGE

Agency No. 605

July 1, 1995 Through June 30, 1996

Issue Date: February 7, 1997

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EVERETT COMMUNITY COLLEGE
Agency No. 605
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Overview

We performed the statewide single audit of the state of Washington for the fiscal year ended June 30, 1996. In accordance with the Single Audit Act of 1984, we audited the state as an entity, rather than each agency separately. The results of this audit will be published in a statewide single audit report which includes the following:

- An opinion on the financial statements.
- A report on internal control structure-related matters based solely on an assessment of control risk made as part of the audit of the financial statements.
- A report on compliance with laws and regulations that may have a material effect on the financial statements.
- An opinion on supplementary Schedule of Federal Financial Assistance.
- A report on internal controls over federal financial assistance.
- An opinion on compliance with specific requirements applicable to major federal financial assistance programs.
- A report on compliance with general requirements applicable to federal financial assistance programs.
- A report on compliance with laws and regulations applicable to nonmajor federal financial assistance program transactions tested.
- A Schedule of Findings and Schedule of Questioned Costs.

The work performed at Everett Community College included procedures to satisfy the requirements of the 1996 statewide single audit and supplemental reviews and tests deemed necessary in the circumstances.

There were findings, which are listed in the Schedule of Findings following this Overview, for Everett Community College.

Brian Sonntag
State Auditor

January 9, 1997

EVERETT COMMUNITY COLLEGE
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July 1, 1995 Through June 30, 1996

Schedule Of Findings

1. Public Funds Were Misappropriated From The Everett Community College Student Book Store

On August 21, 1996, Everett Community College notified the State Auditor of an apparent misappropriation of college funds in the book store. The college detected some irregular activities by one of the cashiers and investigated the irregularities themselves.

Our audit of the financial records of the student book store revealed that at least \$1,247 in public funds was misappropriated by a cashier during the period April 1, 1996 through August 5, 1996. There were no federal funds involved in this case. At the time the State Auditor was notified, the college had completed their own investigation and restitution in the amount of \$1,165 had been obtained from one employee. At that point in time, the employee resigned employment with the college.

These funds were misappropriated as described below.

The cashier processed fictitious transactions on the cash register to eliminate accountability for cash receipts collected from customers. These false transactions were refunds for merchandise returns. A corresponding amount of cash was then taken by the cashier.

The cashier was responsible for recording transactions in the cash register and approving customer refunds for merchandise. At the end of the shift, the cashier was also solely responsible for placing the receipts in the safe for the night. A daily cash reconciliation was prepared by another individual the following day who failed to catch these irregularities.

We were unable to interview the employee involved because his employment with the college ended on August 5, 1996.

RCW 42.20.070 states:

Misappropriation and falsification of accounts by public officer.

Every public officer, and every other person receiving money on behalf or for an account of the people of the state or any department of state government or any bureau or fund created by law in which the people are directly or indirectly interested, or for or on account of any county, city, town, or any school, diking, drainage, or irrigation district, who:

(1) Shall appropriate to his or her own use or the use of any person not entitled thereto, without authority of law, any money so received by him or her as such officer or otherwise: or

(2) Shall knowingly keep any false account, or make any false entry or erasure in any account, of or relating to any money so received by him or her, or

(3) Shall fraudulently alter, falsify, conceal, destroy or obliterate any such account, or

(4) Shall willfully omit or refuse to pay over to the state, its officer or agency authorized by law to receive the same or to such county, city, town, or such school, diking, drainage, irrigation district or to the proper officer or authority empowered to demand and receive the same, any money received by him or her as such officer when it is a duty imposed upon him or her by law to pay over and account for the same, shall be punished by imprisonment in a state correctional facility for not more than 15 years.

The following internal control weaknesses allowed a cashier in the student book store to conceal these losses without being detected by college management officials.

- a. While refunds are a high risk transactions type, these transactions were not regularly reviewed by a supervisor in the student book store to ensure they were for valid reasons and were supported by appropriate documentation.
- b. The college did not review or monitor the number or amount of refund transactions by individual cashier for trends or abuses.

Before our audit began, college officials implemented new controls to process and monitor book store cash transactions.

We recommend Everett Community College seek recovery of the additional \$82 and related audit/investigation costs from the student book store cashier. We further recommend the Washington State Office of Attorney General and the Snohomish County Prosecuting Attorney review this matter and take whatever action is deemed necessary under the circumstances.

We also recommend Everett Community College report this matter to the City of Everett Police Department for potential investigation.

Auditee's Response

The loss at the bookstore was discovered and acted upon by college bookstore personnel. Although the amount of the loss was relatively minor and occurred during a short time frame, improved controls were quickly implemented by the bookstore manager to prevent similar losses.

The college's annual internal control assessment is performed by college personnel outside of the bookstore. The internal control assessment program will include a specific monitoring of the new controls in the bookstore to evaluate their effectiveness.

Auditor's Concluding Remarks

We wish to take this opportunity to thank Everett Community College for their responsiveness to the findings and internal control weaknesses included in this report. We will review the management actions taken during our next regularly scheduled audit of the college.

2. Everett Community College Should Implement Controls Over Small And Attractive Assets And Comply With State Regulations

Everett Community College does not have adequate controls to account for its small and attractive assets in accordance with state regulations.

- a. The college is not properly tagging and inventorying all small and attractive assets. At the present time, only computers with a value greater than \$300 are being tagged and inventoried. Other small and attractive assets such as printers are not being tagged and inventoried. The college has not developed its own small and attractive asset policy.

The State of Washington Office of Financial Management (OFM) *Policies, Regulations, and Procedures* manual Section 3.1.2.2.7 states:

The following fixed assets are to be considered inventoriable assets and carried on the property records of an agency:

- c. All remaining fixed assets, with unit cost of less than \$5,000, identified as small and attractive. See Section 3.1.2.2.8. Agencies are to maintain such assets on their automated inventory systems or may develop alternative inventory systems.

Section 3.1.2.2.8 states:

Small and Attractive Assets - Small and Attractive Assets are those fixed assets with a unit cost (including ancillary costs) of less than \$5,000 which the agency considers particularly vulnerable to loss, thus suggesting the need for special property control.

Absent a risk assessment and development of written policies for identifying and controlling small and attractive assets, agencies are to define, at a minimum, the following assets with a unit cost exceeding \$300 as small and attractive: . . . ADP Assessorial Equipment - Laser Printers.

- b. The college has not completed a physical inventory of inventoriable assets as required by state regulations. A physical inventory of capital assets with a value greater than \$5,000 was begun in the fall of 1996. This inventory did not include any assets recorded as small and attractive. The last complete physical inventory was completed in June 1993.

The State of Washington OFM *Policies, Regulations, and Procedures* manual Section 3.1.2.2.11 states:

Agencies are to initiate and document an inventory program to ensure that every **inventoriable** fixed asset is subject to physical count or verification every two years. (Emphasis ours.)

Section 3.1.2.1.5.d. (2) states:

Inventoriable Fixed Assets - includes all capitalized fixed asset plus all fixed assets meeting the agency definition of small and attractive as defined at Section 3.1.2.2.8.

College management intended to develop their own small and attractive policy. To date, college management has not applied adequate resources to the accomplishment of this task, the policy has not been written.

By failing to properly account for all inventoriable assets, and not taking a required inventory, the college is not properly safeguarding state assets and risks that a theft or misappropriation of these assets might occur and not be detected in a timely manner.

We recommend that Everett Community College implement controls over small and attractive assets and comply with state regulations. We further recommend that the college complete a physical count of all inventoriable fixed assets as required by OFM regulations.

Auditee's Response

The college intends to develop a policy for small and attractive assets. Although the college has not experienced appreciable losses of its property, it believes that it is both practical and beneficial to develop a loss prevention program for its small and attractive assets.

Auditor's Concluding Response

We thank Everett Community College for its response to the matters discussed in our finding. We shall review this area in subsequent audits.